

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Delta County Road Commission</b>	County <b>Delta</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>2/4/05</b>	Date Accountant Report Submitted to State: <b>3/31/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Escanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature <i>Anderson, Tackman &amp; Company P.C.</i>		Date <b>3/31/05</b>	

**DELTA COUNTY ROAD COMMISSION**

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2004

**DELTA COUNTY**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Peter J. Stropich  
Vice - Chairman

Waldon Johnson  
Chairman

John LaTulip  
Member

Mark Desotell  
Managing Director - Engineer

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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### **INDEPENDENT AUDITORS' REPORT**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the Delta County Road Commission (a component unit of the County of Delta, Michigan) as of and for the year ended September 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta County Road Commission as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2005, on our consideration of the Delta County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delta County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*  
**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 4, 2005

## **Management's Discussion and Analysis**

#### Using This Annual Report

The Delta County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

#### Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

#### Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.



The Road Commission as a Whole

The road commission's net assets increased approximately 33% from \$7.8 million to \$10.4 million for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Net assets increased \$2,600,216 during the current year primarily due to infrastructure additions for road projects funded by state and federal funds. The investment in capital assets category increased \$2,063,067.

Net assets as of the years ending September 30, 2004 and 2003 are as follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$ 2,699,154	\$ 2,631,628
Capital Assets	<u>14,066,970</u>	<u>12,003,902</u>
Total Assets	<u>\$ 16,766,124</u>	<u>\$ 14,635,530</u>
Current Liabilities	1,060,038	1,354,425
Long-term Liabilities	<u>5,302,233</u>	<u>5,477,468</u>
Total Liabilities	<u>\$ 6,362,271</u>	<u>\$ 6,831,893</u>
Net Assets:		
Investment in Capital Assets,		
Net of Related Debt	8,735,159	6,281,304
Restricted	<u>1,668,694</u>	<u>1,522,333</u>
Total Net Assets	<u>\$ 10,403,853</u>	<u>\$ 7,803,637</u>

A summary of changes in net assets for the years ending September 30, 2004 and 2003 are as follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenues:		
Charges for Services	\$ 1,395,224	\$ 762,885
Operating Grants and Contributions	5,973,426	6,378,052
Other	81,007	14,575
General Revenues:		
Interest Income	8,965	13,663
Gain on Disposal of Equipment	50,217	186,304
Total Revenues	<u>\$ 7,508,839</u>	<u>\$ 7,355,479</u>
Program Expenses:		
Primary Roads:		
Heavy Maintenance	91,227	-
Maintenance	1,501,779	1,323,686
Local Roads:		
Heavy Maintenance	2,590	-
Maintenance	1,151,698	943,903
State Trunkline Maintenance	1,113,616	760,240
Interest Expense	284,527	282,984
Compensated Absences	15,434	2,329
Equipment Expenses	354,996	682,422
Administrative	392,756	500,104
Total Expenses	<u>\$ 4,908,623</u>	<u>\$ 4,495,668</u>
Increases in Net Assets	<u>\$ 2,600,216</u>	<u>\$ 2,859,811</u>

#### The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2004, the fund balance of the general operations fund increased \$162,024 as compared to a decrease of \$437,488 in the fund balance for the year ended September 30, 2003. Total revenues were \$7,508,838, an increase of \$151,773 as compared to last year. This change

in revenues resulted from a net increase due to the offset of various increases and declines in different revenue types. The Road Commission experienced an increase in township contributions of \$40,264, gain on disposal of equipment declined \$137,673 from prior year, federal sources declined \$657,017 from prior year as a result of fewer federal aid projects, or smaller scoped projects in 2004. State of Michigan transportation funds increased \$312,998 from prior year due to the implementation of the one-time (lifetime) trailer registration fees, of which a portion is distributed via the Michigan Transportation Funds. State Economic Development Fund revenue declined \$100,871 from prior year, and are dependent on available funding and project awards. State Trunkline Maintenance increased \$630,351 compared to 2003 due to more project work on the state highway system. Interest earned declined in 2004 by \$4,698 compared with 2003 as a result of paying off the state infrastructure bank loan, which depleted the cash balance to earn interest on.

Total expenditures were \$7,346,814, a decrease of \$447,739 as compared to last year. This change in expenditures is primarily due to fewer federal aid projects, which decreased heavy maintenance expenditures. The majority of heavy maintenance work is done with federal and state aid resources, which vary from year to year depending on what types of funding are available and have projects to fit the criteria for. Sometimes many agencies are competing for the same available funds so it depends on whether the projects that are applied for are awarded the funding or not.

#### Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

Actual revenue for 2004 was higher than the revenue budget by \$168,838. This is primarily due to recognizing \$145,000 in township contributions for projects completed in fiscal year 2004. Other differences compared to the budget is a result of the difficulty to estimate the Michigan Transportation Funds allocation for fiscal year end, because August and September allocations are not received until October and November respectively. The amounts can vary substantially from month to month depending on the amount of fuel tax and other fees collected.

Road Commission expenditures were projected at \$7,560,250 while actual expenditures were \$7,346,814. This resulted in total expenditures under budget by \$213,436. The main reason for the difference between budget and actual is the estimated percentage used to determine fringe benefits for the current year was based on prior year's percentage. The actual current year percentage was substantially lower than prior year's as a result of a reduction in medical insurance costs, due to repayment of benefits by commissioners.

## Capital Asset and Debt Administration

Capital Assets

A summary of capital assets for the years ending September 30, 2004 and 2003 are as follows:

	2004	2003
Capital Assets Not Being Depreciated:		
Land and Improvements	\$ 1,410,797	\$ 1,410,797
Other Capital Assets:		
Buildings and Improvements	6,764,447	6,698,480
Road Equipment	6,024,304	5,917,602
Other Equipment	275,409	265,340
Infrastructure and Improvements	5,496,398	3,105,567
Total Capital Assets at Historic Cost	19,971,355	17,397,786
Total Accumulated Depreciation	(5,904,385)	(5,393,883)
Total Net Capital Assets	\$ 14,066,970	\$ 12,003,903

Current year's major additions included the following:

Various Road Projects	\$ 2,390,831	\$ 2,944,475
Bridge Project	-	161,092
Trucks/Equipment	559,238	805,433
Buildings	65,967	23,880

Debt

The road commission has limited debt obligations. Bonds issued in prior years have been paid currently. The road commission has long-term debt in the amount of \$5,302,233, which represents compensated absences, and bonds and loans payable. More detailed information about the road commission's long-term liabilities is presented in Note 9 to the financial statements.

### Economic Factors and Next Year's Budget

The board of county road commissions considered many factors when setting the fiscal year 2005 budget. The Road Commission anticipates an increase in federal and state aid projects and funding for fiscal year 2005 for a greater amount of project work to be performed compared to fiscal year 2004. Michigan Transportation Funds in 2005 are expected to be at the same levels as fiscal year 2004.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Delta County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Delta County.

### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Delta County Road Commission administrative offices at 3000 32<sup>nd</sup> Avenue North, Escanaba, Michigan 49829.

## **Basic Financial Statements**

# Delta County Road Commission

## Statement of Net Assets September 30, 2004

### ASSETS

Cash and Equivalents	\$ 1,139,717
Accounts Receivable:	
Due from Townships on Long-term Agreements	145,000
Michigan Transportation Fund	697,692
State – Other	28,795
Due on County Road Agreements	91,366
Sundry Accounts	58,213
Inventories:	
Road Materials	335,235
Equipment, Parts and Materials	154,107
Prepaid Expenses	49,029
Capital Assets (Net of Accumulated Depreciation)	<u>14,066,970</u>
Total Assets	<u>\$ 16,766,124</u>

### LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 220,136
Accrued Liabilities	55,875
Other Liabilities	18,850
Advances from State	411,455
Interest Payable	114,500
Bonds Payable	105,000
Loans Payable	81,811
Compensated Absences	52,411
Noncurrent Liabilities:	
Bonds Payable	5,145,000
Compensated Absences	<u>157,233</u>
Total Liabilities	<u>6,362,271</u>

### NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 8,735,159
Restricted for County Road	<u>1,668,694</u>
Total Net Assets	<u>\$ 10,403,853</u>

The Notes to Financial Statements are an integral part of this statement.

## Delta County Road Commission

### Statement of Activities For the Year Ended September 30, 2004

Program Expenses:	
Primary Road Heavy Maintenance	\$ 91,227
Primary Road Maintenance	1,501,779
Local Road Heavy Maintenance	2,590
Local Road Maintenance	1,151,698
State Trunkline Maintenance	1,113,616
Net Equipment Expense	354,996
Net Administrative Expense	392,756
Compensated Absences	15,434
Interest Expense	<u>284,527</u>
Total Program Expenses	<u>4,908,623</u>
Program Revenues:	
License and Permits	16,025
Federal Grants	716,217
State Grants	4,487,812
Contributions from Local Units	769,397
Charges for Services	1,395,224
Other	<u>64,982</u>
Total Program Revenues	<u>7,449,657</u>
Net Program Revenues	<u>2,541,034</u>
General Revenue	
Investment Earnings	8,965
Gain on Equipment Disposal	<u>50,217</u>
Total General Revenues and Transfers In	<u>59,182</u>
Change in Net Assets	2,600,216
Net Assets:	
Beginning of Year	<u>7,803,637</u>
End of Year	<u>\$ 10,403,853</u>

The Notes to Financial Statements are an integral part of this statement.



# Delta County Road Commission

Balance Sheet  
September 30, 2004

Governmental  
Fund Type  
General  
Operating Fund

## ASSETS

Cash and Equivalents	\$ 1,139,717
Accounts Receivable:	
Due from Townships on Long-term Agreements	145,000
Michigan Transportation Fund	697,692
State – Other	28,795
Due on County Road Agreements	91,366
Sundry Accounts	58,213
Inventories:	
Road Materials	335,235
Equipment, Parts, and Materials	154,107
Prepaid Expenses	<u>49,029</u>
Total Assets	<u>\$ 2,699,154</u>

## LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 220,136
Accrued Liabilities	55,875
Other Liabilities	18,850
Advances from State	<u>411,455</u>
Total Liabilities	<u>706,316</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,992,838</u>
Total Fund Equities	<u>1,992,838</u>
Total Liabilities and Fund Equities	<u>\$ 2,699,154</u>

The Notes to Financial Statements are an integral part of this statement.

## Delta County Road Commission

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### Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2004

Total Governmental Fund Balance	\$ 1,992,838
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,066,970
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,655,955)</u>
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Net Assets of Governmental Activities	<u>\$ 10,403,853</u>
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## Delta County Road Commission

### Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2004

	General Operating Fund
Revenues:	
License and Permits	\$ 16,025
Federal Sources	716,217
State Sources	4,487,811
Contributions from Local Units	769,397
Charges for Services	1,395,224
Interest and Rents	8,965
Other Revenue	<u>115,199</u>
Total Revenues	<u>7,508,838</u>
Expenditures	
Public Works	6,831,856
Capital Outlay	(160,124)
Debt Service	<u>675,082</u>
Total Expenditures	<u>7,346,814</u>
Excess of Revenues Over (Under) Expenditures	162,024
Fund Balance – October 1, 2003	<u>1,830,814</u>
Fund Balance – September 30, 2004	<u>\$ 1,992,838</u>

The Notes to Financial Statements are an integral part of this statement.

## Delta County Road Commission

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2004

Net Change in Fund Balance – Total Governmental Funds	\$ 162,024
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,051,863
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Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	11,204
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Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	390,789
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>(15,664)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 2,600,216</u>
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## **Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Delta County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Delta County Road Commission.

Effective October 1, 2002, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

**A. Reporting Entity**

The Delta County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Delta County Road Commission, a discretely presented component unit of Delta County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Delta County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

**Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Delta County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis.

**Depreciation**

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

**Compensated Absences (Vacation and Sick Leave)**

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year, and are permitted to carry over up to 2 weeks vacation, to be used by June 1<sup>st</sup> of the following year.

Each regular employee shall earn sick leave with pay at the rate of 8 hours for each month of employment in which the employee works at least 12 days and has qualified as a regular employee. Sick leave may be accumulated without limitation. The Road Commission's sick leave benefits policy provides for payment of 50% of the accumulated benefits, to a maximum of 380 hours, when an employee takes a bona fide retirement or a bona fide disability termination. Those benefits payable upon retirement or disability represent the vested sick leave benefits.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 15 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road:			
Maintenance	\$ 1,375,000	\$ 1,378,889	(3,889)
Local Road:			
Maintenance	750,000	906,773	(156,773)
State Trunkline Maintenance	1,110,000	1,113,616	(3,616)

**NOTE 3 - CASH AND DEPOSITS**

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 200
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>1,139,517</u>
Total Cash	<u>\$ 1,139,717</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking)	<u>\$ 5,000</u>	<u>\$ 195,438</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Delta County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Delta County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Delta County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Delta County Road Commission for the current year was as follows:

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 1,410,797	\$ -	\$ -	\$ 1,410,797
Subtotal	<u>1,410,797</u>	<u>-</u>	<u>-</u>	<u>1,410,797</u>
Capital Assets Being Depreciated				
Buildings and Improvements	6,698,480	65,967	-	6,764,447
Road Equipment	5,917,602	549,169	442,467	6,024,304
Shop Equipment	120,873	-	-	120,873
Office Equipment	95,560	7,445	-	103,005
Engineers' Equipment	48,907	2,624	-	51,531
Infrastructure – Bridges	161,092	-	-	161,092
Infrastructure – Roads	<u>2,944,475</u>	<u>2,390,831</u>	<u>-</u>	<u>5,335,306</u>
Subtotal	<u>15,986,989</u>	<u>3,016,036</u>	<u>442,467</u>	<u>18,560,558</u>

## Delta County Road Commission

### Notes to Financial Statements For the Year Ended September 30, 2004

#### NOTE 5- CAPITAL ASSETS (Continued)

	Beginning Balances 10/01/03	Additions	Adjustments/ Deductions	Ending Balances 09/30/04
Less Accumulated Depreciation				
Buildings and Improvements	878,303	179,432	-	1,057,735
Road Equipment	4,294,865	589,788	453,671	4,430,982
Shop Equipment	90,385	5,203	-	95,588
Office Equipment	64,677	7,227	-	71,904
Engineers' Equipment	36,316	3,671	-	39,987
Infrastructure – Bridges	2,685	3,222	-	5,907
Infrastructure – Roads	26,652	175,630	-	202,282
Subtotal	5,393,883	964,173	453,671	5,904,385
Net Capital Assets Being Depreciated	10,593,106	2,051,863	(11,204)	12,656,173
Total Net Capital Assets	\$ 12,003,903	\$ 2,051,863	\$ (11,204)	\$ 14,066,970

Depreciation expense was charged to programs of the Delta County Road Commission as follows:

Primary Road	
Maintenance	\$ 122,890
Local Road	
Maintenance	55,962
Equipment	762,698
Administrative	22,623
Total Depreciation Expense	\$ 964,173

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**

**Plan Description** – The Delta County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

**Actuarial Accrued Liability** – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

**GASB 25 INFORMATION (as of 12/31/2003)****Actuarial Accrued Liability:**

Retirees and beneficiaries currently receiving benefits	\$ 1,512,600
Terminated employees (vested former members) not yet Receiving benefits	143,842
Current employees –	
Accumulated employee contributions including allocated investment income	-
Employer financed	<u>4,149,868</u>
Total Actuarial Accrued Liability	\$ 5,806,310
Net Assets Available for Benefits at Actuarial Value (Market Value is \$2,375,399)	<u>2,601,444</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 3,204,866</u>

GASB 27 INFORMATION (as of 12/31/2003)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$ 280,320
Amortization Factor Used – Underfunded Liabilities (32 years)	0.052621
Amortization Factor Used – Overfunded Liabilities (10 years)	0.119963

**Funding Policy** – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

**Annual Pension Costs** – The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$338,142 for the year ended September 30, 2004. Payments were based on contribution calculations made by MERS.

	2001	2002	2003
<u>Annual Pension Cost</u>			
Annual Pension Cost (APC)	\$ 241,738	\$ 269,407	\$ 281,915
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
<u>Aggregate Accrued Liabilities</u>			
Actuarial Value of Assets	\$ 1,962,783	\$ 2,235,693	\$ 2,601,444
Actuarial Accrued Liability	4,993,963	5,413,835	5,806,310
Unfunded AAL	(3,031,180)	(3,178,142)	(3,204,866)
Funded Ratio	39%	41%	45%
Covered Payroll	1,449,356	1,517,764	1,546,860
UAAL as a Percentage of Covered Payroll	209%	209%	207%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2004, the federal aid received and expended by the Road Commission was \$716,217 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

**NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

**Changes in Long-Term Debt**

	<u>10/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/04</u>
MTF Bonds Payable	\$ 5,345,000	\$ -	\$ 95,000	\$ 5,250,000
MTF Loan Payable	310,851	-	229,040	81,811
Loans Payable:				
Associates Commercial Corp.	62,478	-	62,478	-
Associates Commercial Corp.	4,269	-	4,269	-
Compensated absences (1)	<u>194,210</u>	<u>15,434</u>	<u>-</u>	<u>209,644</u>
Total	<u>\$ 5,916,808</u>	<u>\$ 15,434</u>	<u>\$ 390,789</u>	<u>\$ 5,541,455</u>

(1) The change in compensated absences is shown as a net addition.

In May 1999, the County of Delta approved a Delta County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$5,690,000, payable over the period 1999 to 2029 at interest rates that range from 4.6% to 7.0%. The annual debt service requirements are as follows:

<u>Bonds Payable:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 105,000	\$ 263,925	\$ 368,925
2006	110,000	256,538	366,538
2007	115,000	250,180	365,180
2008	120,000	244,775	364,775
2009	125,000	239,140	364,140
2010-2014	750,000	1,097,653	1,847,653
2015-2019	975,000	885,918	1,860,918
2020-2024	1,280,000	603,585	1,883,585
2025-2029	<u>1,670,000</u>	<u>225,889</u>	<u>1,895,889</u>
Total Bonds Payable	<u>\$ 5,250,000</u>	<u>\$ 4,067,603</u>	<u>\$ 9,317,603</u>



**NOTE 9 - LONG-TERM DEBT (Continued)**

In November 2000, a Michigan Transportation Loan Fund note was issued to the Road Commission for \$1,075,000. Terms specify repayment at \$198,474 per year plus interest at 4% per year. Current maturity is as follows:

Loan Payable:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ <u>81,811</u>	\$ <u>3,272</u>	\$ <u>85,083</u>

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2004.

Risk Management - The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Delta County Road Commission became a member of the pool in 1980 for workers compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

# Delta County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 14,500	\$ 16,000	\$ 16,025	\$ 25
Federal Sources	892,000	909,000	716,217	(192,783)
State Sources				
Michigan Transportation Fund				
Engineering	-	-	10,000	10,000
Snow Removal	-	-	33,039	33,039
Allocation	4,100,000	4,100,000	3,888,198	(211,802)
Urban Road	-	-	247,369	247,369
State Critical Bridge	-	-	-	-
Economic Development Fund				
Forest Road	187,500	187,500	213,451	25,951
Urban Area	-	-	95,754	95,754
Contributions from Local Units				
Townships	500,000	480,000	634,397	154,397
Hannahville – 2% Grant	135,000	135,000	135,000	-
Charges for Services				
Trunkline Maintenance	1,377,000	1,387,000	1,277,204	(109,796)
Trunkline Non-Maintenance	-	-	113,387	113,387
Salvage Sales	3,000	3,000	2,768	(232)
Subdivision Inspection Fees	-	-	1,865	1,865
Interest and Rents	6,000	7,500	8,965	1,465
Other Revenue				
Other	75,000	65,000	64,982	(18)
Gain on Equipment Disposal	-	50,000	50,217	217
Total Operating Revenue	<u>\$ 7,290,000</u>	<u>\$ 7,340,000</u>	<u>\$ 7,508,838</u>	<u>\$ 168,838</u>

## **Supplementary Information**

# Delta County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licences and Permits				
Permits	\$ 14,500	\$ 16,000	\$ 16,025	\$ 25
Federal Sources	892,000	909,000	716,217	(192,783)
State Sources				
Michigan Transportation Fund				
Engineering	-	-	10,000	10,000
Snow Removal	-	-	33,039	33,039
Allocation	4,100,000	4,100,000	3,888,198	(211,802)
Urban Road	-	-	247,369	247,369
State Critical Bridge	-	-	-	-
Economic Development Fund				
Forest Road	187,500	187,500	213,451	25,951
Urban Area	-	-	95,754	95,754
Contributions from Local Units				
Townships	500,000	480,000	634,397	154,397
Hannahville – 2% Grant	135,000	135,000	135,000	-
Charges for Services				
Trunkline Maintenance	1,377,000	1,387,000	1,277,204	(109,796)
Trunkline Non-Maintenance	-	-	113,387	113,387
Salvage Sales	3,000	3,000	2,768	(232)
Subdivision Inspection Fees	-	-	1,865	1,865
Interest and Rents	6,000	7,500	8,965	1,465
Other Revenue				
Other	75,000	65,000	64,982	(18)
Gain on Equipment Disposal	-	50,000	50,217	217
Total Operating Revenue	<u>\$ 7,290,000</u>	<u>\$ 7,340,000</u>	<u>\$ 7,508,838</u>	<u>\$ 168,838</u>

# Delta County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 1,100,000	\$ 1,625,000	\$ 1,577,875	\$ 47,125
Maintenance	1,100,000	1,375,000	1,378,889	(3,889)
Local Road				
Heavy Maintenance	700,000	750,000	906,773	(156,773)
Maintenance	1,000,000	1,100,000	1,095,736	4,264
State Trunkline Maintenance	875,000	1,110,000	1,113,616	(3,616)
Equipment Expense – Net	400,000	385,000	366,211	18,789
Administrative Expense – Net	425,000	434,000	392,756	41,244
Capital Outlay – Net	(50,000)	(95,000)	(160,124)	65,124
Distributive Expense – Net	160,000	200,000	-	200,000
Debt Service				
Principal	284,500	391,750	390,785	965
Interest	391,750	284,500	284,297	203
Total Expenditures	6,386,250	7,560,250	<u>\$ 7,346,814</u>	<u>\$ 213,436</u>
Fund Balance – October 1, 2003	<u>1,830,814</u>	<u>1,830,814</u>		
Total Budget	<u>\$ 8,217,064</u>	<u>\$ 9,391,064</u>		

## Delta County Road Commission

### Analysis of Changes in Fund Balances For the Year Ended September 30, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 4,006,204	\$ 2,086,495	\$ 1,416,139	\$ 7,508,838
Total Expenditures	<u>3,903,972</u>	<u>2,292,094</u>	<u>1,150,748</u>	<u>7,346,814</u>
Excess of Revenues Over (Under) Expenditures	102,232	(205,599)	265,391	162,024
Other Financing Sources (Uses) Optional Transfers In (Out)	<u>(150,000)</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(47,768)	(55,599)	265,391	162,024
Fund Balance – October 1, 2003	<u>1,441,219</u>	<u>253,536</u>	<u>136,059</u>	<u>1,830,814</u>
Fund Balance – September 30, 2004	<u>\$ 1,393,451</u>	<u>\$ 107,937</u>	<u>\$ 401,450</u>	<u>\$ 1,992,838</u>

# Delta County Road Commission

## Analysis of Revenues For the Year Ended September 30, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 16,025	\$ 16,025
Federal Sources	716,217	-	-	716,217
State Sources				
Michigan Transportation Fund				
Engineering	6,900	3,100	-	10,000
Snow Removal	-	33,039	-	33,039
Allocation	2,691,704	1,196,494	-	3,888,198
Urban Road	164,159	83,210	-	247,369
Economic Development Fund				
Forest Road	213,451	-	-	213,451
Rural Area	95,754	-	-	95,754
Contributions from Local Units				
Townships	-	634,397	-	634,397
Hannahville – 2% Grant	-	135,000	-	135,000
Charges for Services				
Trunkline Maintenance	-	-	1,277,204	1,277,204
Trunkline Non-Maintenance	-	-	113,387	113,387
Salvage Sales	-	-	2,768	2,768
Subdivision Inspection Fees	-	-	1,865	1,865
Interest and Rents	6,993	1,255	717	8,965
Other Revenue				
Other	64,982	-	-	64,982
Gain on Equipment Disposal	46,044	-	4,173	50,217
Total Revenue	<u>\$ 4,006,204</u>	<u>\$ 2,086,495</u>	<u>\$ 1,416,139</u>	<u>\$ 7,508,838</u>

## Delta County Road Commission

### Analysis of Expenditures For the Year Ended September 30, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Heavy Maintenance	\$ 1,577,875	\$ -	\$ -	\$ 1,577,875
Maintenance	1,378,889	-	-	1,378,889
Local Road				
Heavy Maintenance	-	906,773	-	906,773
Maintenance	-	1,095,736	-	1,095,736
State Trunkline Maintenance	-	-	1,113,616	1,113,616
Equipment Expense – Net	132,824	130,994	102,393	366,211
Administrative Expense – Net	234,165	158,591	-	392,756
Capital Outlay – Net	(94,863)	-	(65,261)	(160,124)
Debt Service				
Debt Principal Payments	390,785	-	-	390,785
Interest Expense	<u>284,297</u>	<u>-</u>	<u>-</u>	<u>284,297</u>
Total Expenditures	<u>\$ 3,903,972</u>	<u>\$ 2,292,094</u>	<u>\$ 1,150,748</u>	<u>\$ 7,346,814</u>



## **Compliance Reports**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the basic financial statements of the Delta County Road Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated February 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Delta County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated February 4, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Delta County Road Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no Board of County Road Commissioners

instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Delta County Road Commission in a separate letter dated February 4, 2005.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.L.C.*

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 4, 2005

**DELTA COUNTY ROAD COMMISSION**

**REPORT TO MANAGEMENT**

**Year Ended September 30, 2004**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT TO MANAGEMENT**

Board of County Road Commissioners  
Delta County Road Commission  
3000 32<sup>nd</sup> Avenue North  
Escanaba, MI 49829

We have audited the financial statements of the Delta County Road Commission for the year ended September 30, 2004, and have issued our reports thereon dated February 4, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated October 10, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Delta County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Delta County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Delta County Road Commission are described in Note 1 of the financial statements.

Board of County Board Commissioners  
Delta County Road Commission

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates. The most sensitive estimates affecting the financial statements were the useful lives of property and equipment for the purpose of calculating depreciation.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Delta County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Delta County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Delta County Road Commission, for the year ended September 30, 2004, we considered the Delta County Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated February 4, 2005, on the financial statements of the Delta County Road Commission.

We have already discussed many of these comments and recommendations with various Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Delta County Road Commission and management of the Delta County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Anderby, Tackman & Company P.C.*

Certified Public Accountants

February 4, 2005

## DELTA COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

September 30, 2004

#### BUDGET VIOLATIONS

**Comment:**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The actual 2004 expenditures for the following activities (cost centers) exceeded the amended budget allocations which is contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act."

<u>Activity (Cost Center)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road - Maintenance	\$ 1,375,000	\$ 1,378,889	\$ (3,889)
Local Road - Maintenance	750,000	906,773	(156,773)
State Trunkline Maintenance	1,110,000	1,113,616	(3,616)

**Recommendation:**

We recommend expenditure accounts be closely monitored in order to determine the need to amend the budget to prevent budget violations.

#### FIXED ASSETS

**Comment:**

1. Fixed assets are currently being recorded and depreciated manually.
2. Infrastructure assets are not being recorded, nor depreciated, on the books of the Road Commission.

**Recommendation:**

We recommend the Road Commission utilize software to account for the tracking and depreciation of their assets, along with their infrastructure assets. This will make accounting for the assets of the Road Commission more efficient and less prone to clerical errors.